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CPP reform failure pressures Ontario to go it alone

The failure of federal and provincial finance ministers to approve the expansion of the Canada Pension Plan (CPP) may drive Ontario to launch its own provincial pension plan.

Accusing the federal government of deliberately delaying its proposal to expand CPP benefits, Ontario says it may now seek to develop its own pension rather than wait for the national pension plan to be enhanced.

The statement follows the failure of provincial and federal finance ministers to agree to the reform of the CPP in meetings held at Meech Lake this past December.

According to media reports, the federal government vetoed the idea of enriching the CPP while Ontario, Quebec, Manitoba, Newfoundland & Labrador, and Prince Edward Island favoured the concept.

The move by Ontario follows several months of warnings that Canada is heading for *"a huge economic crisis"* if the country doesn't take action to improve retirement incomes. According to Ontario Premier Kathleen Wynne, people are not saving enough for retirement. Ultimately, that will result in a social and economic calamity unless action is taken to improve retirement incomes.

"People are not saving enough for retirement and if we let this go unchecked we're going to face a huge economic crisis," she told an audience of business representatives this past November. *"Governments have to ensure a reliable and responsible retirement income system, one that evolves and responds to the practical realities of the times."*

Since 2010, the province has endorsed expanding CPP payouts from the current level of 25 per cent of the career average earnings to 35 per cent. It also favours increasing the joint employer-employee contribution from 9.9 per cent of pensionable earnings to 12.1 per cent. If its proposals aren't accepted, the province will introduce its own provincial pension plan modelled after the CPP, the Ontario government says. (See the November 2013 of the *Coughlin Courier* for background.)

"We're taking the lead…to make sure that we're thinking ahead and making sure that everyone in this province is prepared for retirement," Premier Wynne says.

The premier's proposals have received a cool reception from the federal government with federal Finance Minister Jim Flaherty suggesting that now is not a good time to increase taxation levels to fund the national pension.

"It's a payroll tax on employers and employees," Mr. Flaherty says. *"I don't think the idea is a bad one. I just think that the economy has to be able to afford it at an appropriate time."*

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CPP reform failure pressures Ontario to go it alone

Mr. Flaherty says that he prefers a more targeted approach, focusing on the 25 per cent of Canadians who are not saving enough for retirement. The federal finance minister feels that with the country's economy still recovering from the 2008-09 recession, payroll-based taxes like the CPP should be held in check until the economy strengthens.

"There's no point in using a bazooka and blowing money all over the place, taking money from people and from employers in order to address a particular strata of society," he said. *"One of the things I don't believe in is governments making commitments far down the road. That was the kind of proposal that was being brought forward. We'll study it some more, we'll look at triggers. So maybe two years from now; three years; five years; whatever."*

Mr. Flaherty's response met with a strong reaction from Ontario Finance Minister Charles Sousa.

"The easy answer is: 'Oh, dear. Times are tough, so let's not deal with it,'" he told The Globe and Mail. *"That's not leadership. Now is the time to start talking about it because it's going to take a year, two years or more to implement. Kicking the can down the road for another government to resolve, that's not the answer. By then, it's too late."*

Mr. Sousa's comments were supported by Quebec Finance Minister Nicolas Marceau, who stressed that it appeared only the federal government opposed the expansion of the Canada Pension Plan and its Quebec equivalent, the Quebec Pension Plan (QPP).

"In my view, the vast majority of the provinces were in favour of enhancement. All the provinces were in favour of further work. Despite the fact that there was unanimity, the federal government decided they wanted to stop future work," he said.

Ontario's finance minister says that Ontario is serious about implementing its own pension plan should negotiations to enhance the CPP fail. If implemented, the Ontario plan would be mandatory with contributions from both employers and employees. It would also feature a defined benefit at retirement, similar to the CPP.

However, the next steps will be crucial, Mr. Sousa concedes.

"We need to reconsider where we go from here," he says. *"A made-in-Ontario solution may involve every province in Canada."*

In the meantime, the province still intends to introduce pooled retirement pension plans (PRPPs), the voluntary supplementary defined contribution pension plan favoured by the federal government and now legislated by Alberta, Saskatchewan and Quebec. However, PRPPs aren't sufficient to ensure the retirement security of the aging population, Mr. Sousa says.

"I'm open to discussion." Mr. Sousa says. *"But, I am also open to a made-in-Ontario solution that enables us to offset the vacancies of the federal plan."* ❧

Public sector pensions considering benefit reductions

Approximately one-third of Canada's public sector pension plans are contemplating reducing their benefits, an Aon-Hewitt survey suggests.

In a review of 139 public sector plans representing $250 billion in assets covering 2 million members, almost one in three plan sponsors revealed that they are actively considering benefits reductions in order to meet funding pressures resulting from low interest rates, volatile markets, increased retirements and longer member lifespans.

Options under consideration include the reduction or elimination of indexing for inflation and the phasing out of generous early retirement incentives.

Public sector pension plan sponsors appear to be more open to reducing member benefits than restricting the availability of pension plan membership to new members or reducing benefit accruals, the study says.

The majority of public sector pension plan sponsors, 71 per cent, revealed that they are considering increasing member contribution levels to help meet the funding crunch.

A large minority of plan sponsors, 43 per cent, expressed an interest in new pension plan designs that share financial risks among plan members and plan sponsors, the study noted. ❧

CPP reform can be done, but cost impact varies, experts say

Canada can afford to dramatically increase Canada Pension Plan (CPP) benefits without making major changes to eligibility, according to former Statistics Canada assistant chief statistician Michael Wolfson.

Speaking at a symposium sponsored by the University of Toronto Centre for Industrial Relations and Human Resources this past November, the former statistician and current University of Ottawa Canada Research Chair says that the group facing the biggest income replacement challenge at retirement are those with a family income between $35,000 and $100,000 per year.

Facing near-stagnant wages and low interest rates on investments, middle income earners are forced to either save for retirement or meet day-to-day expenses. Inevitably, daily expenses take precedent over long-term retirement planning, he says.

According to Mr. Wolfson, CPP benefits should increase to 40 per cent of yearly maximum pensionable earnings (YMPE) from the current level of 25 per cent. However, to pay for the extra benefits, the pensionable earnings maximum would have to increase from today's level of $51,100 to $100,000. Under that regime, most middle income earners — and their employers — would have to make CPP contributions all year, rather than having their retirement contributions cease when they reach YMPE threshold.

Under Mr. Wolfson's plan, lower income earners would not be forced to make extra CPP contributions.

CPP contribution levels would also have to increase to unspecified levels.

The proposed CPP reforms would mean that an individual earning $100,000 per year, would qualify for a retirement income of approximately $40,000 compared to today's maximum of $12,150.

While proposals like this one may present alternatives to today's pension arrangements, new actuarial data may require pension reformers to reconsider their plans.

According to Canadian Institute of Actuaries (CIA) President Jacques Lafrance, new mortality data suggest that a woman age 65 is now expected to live another 24.5 years instead of the 22.1 years assumed in current pension models. Males the same age can expect to live another 22.5 years, compared to 20 years.

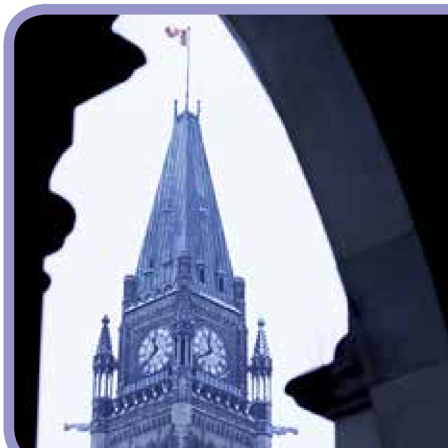
While the addition of another 2.5 years to assumed lifespans may seem modest, the impact on pension pricing could be significant, the CIA president suggests.

"Think about how living an unanticipated 2.5 more years might impact your retirement saving strategy or your employer's pension plan. These changes are significant to Canadians, their employers and their governments," Mr. Lafrance says.

The new pension mortality tables are expected to be released in the first half of 2014.

While the new tables will add pressure to pension funding, the Canadian retirement system is not facing a retirement crisis, he stresses. Plus, changes such as raising the age in which individuals must annuitize their registered pension and retirement savings from the current age of 71, amending pension legislation to better accommodate phased retirement, and eliminating early retirement incentives in government pension plans would help Canada's pension system to catch up with today's mortality and demographic trends.

"Canada is in an enviable position compared with most other developed countries as we are not facing a retirement program crisis," Mr. Lafrance says. *"However, we should not use that as an excuse to avoid important policy decisions that will benefit all Canadians."* ❧



Canadian retirement facts

- Two-thirds of Canadians do not have a company pension.
- One-third of Canadians have a registered retirement savings plan (RRSP).
- 94 per cent of RRSP owners have unused contribution room within their plan.
- Half of all RRSP contributors earn $150,000 per year or more.
- 54 per cent of Canadians expect to retire with a mortgage.

(From a presentation by Canadian Union of Public Employees President Paul Moist to the University of Toronto Centre for Industrial Relations and Human Resources, November 2013.) ❧

Quebec tables assisted suicide proposal

A controversial bill to allow assisted suicide has passed first reading in the Quebec National Assembly. If implemented, Quebec would be the first jurisdiction in Canada to allow doctors to help end the life of terminally ill patients.

Under the province's proposals, doctors would be protected from prosecution when they provide an end-of-life mechanism, such as a lethal self-injection, to a patient facing a confirmed terminal illness.

While Quebec civil law prevents euthanasia (the termination of a life by a doctor,) the Quebec government argues that assisted suicide (providing the means for a terminally ill patient to end his/her own life,) represents a "continuum" of health care.

"This has nothing to do with criminal matters and everything to do with medical care," says Quebec Social Services Minister Véronique Hivon. *"The public has placed high expectations on us. This law would provide the best response to their suffering."*

Under the proposed law, a patient requesting end-of-life treatment would have to be an adult resident of Quebec, be capable of providing consent to the procedure and be in the advanced stages of a terminal illness. At least two physicians would also have to confirm that the patient meets the criteria. Input from the patient's family would also have to be collected.

The right-to-die bill is expected to be hotly contested by right-to-life advocates, religious groups, as well as those favouring more funding for hospital or palliative care facilities. The bill has to be reviewed by legislative committees and be approved twice more by the Assembly before it becomes law. Final approval may be years away.

If passed, the Quebec law will present unique challenges to the insurance industry. Today, no life insurance benefits are paid to those who commit suicide within two years of purchase of a policy. Paid premiums are refunded to the estate or plan beneficiaries. However, should a medically assisted suicide of a terminally ill person occur within a hospital, will the old rules of the life insurance industry still apply? If so, would the unsupervised suicide of a terminally person be subject to different claims adjudication rules?

Clearly, the Quebec law could open moral and legal debates in the years to come.

To date, assisted suicide is legal in Belgium, Switzerland, the Netherlands and in the states of Washington and Oregon. ❧

Pension asset growth strongest in years

For the first time since the 2008-09 market crash, pension fund assets grew significantly in 2012, Statistics Canada reports.

According to the government agency, pension plan assets in Canada grew by 9.1 per cent in 2012, almost triple the rate recorded in 2011. Pension fund growth was in the low single digit levels following the 2008 stock market crash, which saw pension assets lose as much as 25 per cent of their value. Since then, record low interest rates also muted pension fund investment growth.

While total pension assets now amount to $2.6 trillion, growth rates among the various pension fund categories was uneven, Statistics Canada says. For example:

- The combined Canada/Quebec Pension Plan experienced asset growth of 13.7 per cent in 2012, for total assets of $213 billion.
- Employer-based pension plans grew by 9.2 per cent to $1.4 trillion.
- Trusteed pension plans grew by 10.6 per cent for government workers and 10.3 per cent for private sector employees.
- Asset growth for individual registered retirement savings plans was slightly less robust, with annual growth measuring 8.0 per cent, for total assets of $928 billion.

The 2012 data is expected to be encouraging for pension plan managers and trustees across the country.

While 2012 was a favourable year for equity markets, it was still marred by the European sovereign debt crisis and reduced growth in Asia. The year 2013 was highlighted by improved economic stability in Europe, stronger Asian growth and a mild but stable recovery in the United States. As a result, final 2013 pension asset growth could even be bullish compared to recent years. ❧

Expanded powers for naturopaths sparks protests from doctors

New rules expanding the power of Ontario's naturopaths to treat complex medical conditions and prescribe drugs have met with a powerful backlash from that province's physicians and surgeons.

The Ontario Medical Association (OMA) and the Ontario College of Physicians and Surgeons have expressed concern about the "troubling" new powers now being proposed for naturopaths.

Under the proposed rules, naturopaths will be able to treat conditions such as HIV and Parkinson's disease, prescribe medications to treat these conditions and order tests and other work from government-funded laboratories. Naturopaths are not qualified to provide such care, the OMA asserts.

"Naturopaths, by definition, are not trained to provide medical care," it said in a brief to the province. *"When the language [of the proposed regulations] strays from naturopathy into medical terminology and interventions, we must object based on the risk to patient safety."*

According to the OMA, the fact that physicians, surgeons and other mainstream medical professions follow a tested, scientific regimen in the course of patient treatment protects patients more than the treatments based on untested philosophies.

"Physicians and other health professionals of that sort follow the scientific paradigm," says Canadian Medical Association Journal Deputy Editor Dr. Matthew Stanbrook. *"We accept treatments that are proven by scientific research. For alternative medicine, that requirement isn't there…"*

The Ontario College of Physicians and Surgeons echoed the OMA's concerns, particularly when it comes to the prescribing of medications for some delicate or potentially dangerous conditions, such as pregnancy-induced high blood pressure.

"Such treatment in a non-hospital setting is extremely dangerous, as the risk of seizure in the mother and death to both the mother and child is very high," the College noted in its submission.

The newly formed transitional council of the Ontario College of Naturopaths counters that their profession plays an important role in the prevention, management and treatment of chronic diseases and should not be restricted from conducting diagnostic tests or recommending specific drugs or other substances to their patients.

"Naturopathic doctors reduce patient reliance on expensive pharmaceuticals and contribute to a reduction in unnecessary visits to emergency departments," they argue. *"Restricting naturopathic doctors to schedules of substances or diagnostic testing will severely limit their ability to treat patients safely."*

While naturopaths and other practitioners of alternative medicine are regulated in Ontario, British Columbia, Alberta and Saskatchewan, the potential expansion of their responsibilities into areas formerly controlled only by licensed physicians and surgeons reflects growing popularity of such treatments among the public.

For benefit plan sponsors and administrators, the possible expansion of alternative medicine into physician-dominated areas of diagnostic testing and prescriptions could present a challenge.

While Ontario and other provinces may support the expanded roles of naturopaths and other practitioners, group benefit contracts often specify that certain services and supplies must be accompanied by appropriate statements from licensed physicians. Until the contracts themselves are changed by plan underwriters to include alternative medical practitioners, claims adjudicators will likely question or decline prescriptions, tests, or other claims involving alternative medicine. ❧

Ontario introduces laws to protect workplace temps and interns

Ontario has become the first province to introduce legislation to protect domestic workers, student interns, and workers hired by temporary employment agencies from employers that ignore workplace health, safety, wage and benefits standards.

Under the proposed legislation, client companies as well as the temporary help agencies will be "jointly and severally" responsible for unpaid wages, severance and other violations of that province's Employment Standards Act.

If passed, the new law will expand the time limit on allowing temporary workers to lodge a claim against an employer for unpaid wages from the current period of six months to two years. It will also remove the $10,000 cap on unpaid wage suits.

The law bans recruitment fees for all migrant workers and expands workplace health and protection laws to cover unpaid interns, usually students who are assigned by their educational institution to work in companies without pay to gain practical job experience. The inclusion of student interns in the legislation follows recent media reports of interns in some companies being expected to work in unsafe conditions or work shifts spanning as much as 24 to 36 hours at a time.

According to the Ontario Law Reform Commission, as many as 50 per cent of Ontario workers are engaged in *"precarious"* work; that is, temporary in nature with low wages, few or no benefits and no job security.

To cut costs, many private and public sector employers use temporary agencies for their staffing.

"Protection for temporary agency workers is long overdue," says Workers' Action Centre spokesperson Deena Ladd. *"The way things are now, a client company can have someone working for them for five years as a temporary worker but never be held responsible for any of their working conditions. Hopefully this bill will mean they will now be held jointly liable, which means they would have to think about their business practices."* ❧

Lung cancer still the leading cause of cancer deaths

Cancer continues to be the leading cause of death in Canada.

According to the Canadian Cancer Society, it is estimated 75,500 people died from the disease in 2013. Of those that fell victim to the disease, more than 20,000 died from lung cancer, more than breast, colon and prostate cancer combined.

While lung cancer is usually associated with smoking, approximately 15 per cent of its victims either never smoked, or tried it as teenagers and quit shortly afterwards.

"A growing number of people with lung cancer are people who smoked as teenagers and then quit when they were very young. There's a growing number of never-smokers with this disease," says Dr. Natasha Leighl of the Princess Margaret Cancer Centre of Toronto.

Exposure to radon gas or work-related carcinogens may be responsible for the large number of non-smokers being diagnosed with lung cancer, she says.

Five-year survival rates for lung cancer have risen to 18 per cent from the five per cent level of a few years ago. Improved understanding of how lung cancer spreads at the molecular level, along with drugs that help the immune system recognize and attack cancer cells, are credited with the improved mortality rate.

While these results are encouraging, plan sponsors and claims adjudicators should not be surprised when non-smokers are diagnosed with the disease. ❧

Fast facts

- Effective January 1, 2014, the maximum pensionable earnings for the Canada Pension Plan (CPP) will increase to $52,500 from $51,100. The joint employer-employee contribution rate remains unchanged at 9.9 per cent of pensionable earnings.
- The maximum insurable earnings for the Employment Insurance (EI) program will increase to $48,600 on January 1, 2014, up from $47,400 in 2013. The weekly EI benefit will increase from $501 to $514.
- The Quebec National Assembly has passed legislation to launch its voluntary retirement savings plan (VRSP). The law requires employers with five or more employees to offer a workplace savings plan to employees with one or more years of service. The Quebec plan mirrors the pooled registered pension plan (PRPP) scheme proposed by the federal government (see the January 2011 edition of the *Coughlin Courier* for details). Alberta and Saskatchewan have passed similar legislation.
- The amount the average family spends annually on hockey-related expenses for their children, according to a Leger survey for CST Consultants: $1,500. The amount the average family sets aside annually for education savings: $1,455. Per cent of parents that have deferred retirement plans or used retirement savings to fund their children's hockey or other sports activities: 23 per cent.
- More than one in four retirees say they left the workforce sooner than they had expected, according to RBC's *Myths and Realities Poll*. Of those that left the workforce early, 41 per cent said they were asked to step aside by their employers. Another 22 per cent left for health reasons. The majority, 65 per cent, had less than one year of notice of their pending retirement; 20 per cent had less than one month's notice before retiring.
- Michelin Canada has announced plans to freeze its defined benefit pension plan effective January 2016 and replace it with a defined contribution arrangement.
- A Ceridian survey of Canadian employers says that 90 per cent of employers recognize the importance of having mental health programming in their corporate health and wellness strategies. However, only 22 per cent believe they offer adequate services to address mental health issues among their employees.
- After months of debate, the Illinois state legislature has passed legislation to reduce that state's $100 billion pension deficit. Pension reform measures include reducing cost-of-living increases, encouraging plan members to move their accumulated assets to a defined contribution plan from the existing defined pension plan, and raising the minimum retirement age for workers age 45 and younger.
- A US bankruptcy judge has ruled that the city of Detroit is eligible for creditor protection and may cut its payouts to its pensioners in order to reduce its $18 billion deficit. Unfunded pension liabilities account for almost $9 billion of the bankrupt city's total debt.

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Fast facts *...continued*

- After two years of debate and public consultation, the state of Rhode Island has changed its public pension plan to a hybrid plan with both defined benefit and defined contribution features. The new plan also raises the plan's minimum retirement age and removes its cost of living adjustment until the plan is in better shape financially. Benefits for retirees have also been reduced.
- The number of people with Type 2 diabetes is expected to rise to 592 million by 2035, according to the International Diabetes Federation. Today, 371 million, or 8.4 per cent of the world's adult population, have the disease. China will account for one-quarter of the world's diabetics by 2035, the organization predicts.
- What would you do with an extra $200? A Harris Interactive survey conducted for the Colonial Life and Accident Insurance Company in the US suggests that the average American would more likely spend it on a new electronic device or a dinner than on a health or life insurance plan, despite the fact that many have little or no health insurance protection.
- A UK study of 7,000 people age 50 to 70 in 11 European countries indicates that retirement may be bad for your health. While those who retire generally experience a short-term improvement in their health immediately following their retirement, the majority, 60 per cent, experience at least one medical condition requiring medication in the medium to long term, the UK Institute of Economic Affairs report says. Social isolation and depression may be leading contributors to retirees' poor health, it says.
- A US study by the ADP Research Institute indicates that 18 per cent of the American workforce will retire by 2018. By industry, the Institute's data suggest that the hospitality industry has the youngest workforce proportionally, with only nine per cent of its members nearing retirement. The public administration sector had a proportionally older workforce, with 28 per cent expected to retire in the next five years. The manufacturing, health care, education and retail sectors ranged between them.
- The government of Mexico has announced that it plans to introduce a national old age pension and unemployment insurance program. The pension plan will provide pension payments to eligible recipients beginning at age 65. The unemployment insurance plan will provide benefits for up to six months. It will be financed jointly by employers and the Mexican government. ❧

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PPN update

- **Taylor Creek Pharmacy** has joined the Coughlin & Associates Ltd. Preferred Provider Network (PPN). They are located at 570 Lacolle Way in Orleans. Phone: 613-686-1991. ❧